

Trends in Private Sector Development in World Bank Education Projects

Shobhana Sosale

The principle underlying trends in Bank education projects is that strengthening the private sector's role in noncompulsory education over time will release public resources for the compulsory (primary) level. The public and private sectors have complementary roles to play.



Summary findings

Emerging trends in education show the private sector to be playing an increasingly important role in financing and providing educational services in many countries. Private sector development has not arisen primarily through public policy design but has of course been affected by the design and limitations of public policy.

Sosale traces trends in private sector development in 11 of 70 World Bank education projects in 1995–97, asking two questions: What has been the rationale for Bank lending in education? And in countries where there is both privately financed and publicly financed and provided education, how has the Bank encouraged the private sector to thrive?

The 11 country samples reveal that the Bank's interest in private sector development is basically in capacity-oriented privatization to absorb excess demand for education. This is crucial to the Bank's general strategy for education lending: promoting access with equity, focusing on efficiency in resource allocation, promoting

quality, and supporting capacity building. Absorbing excess demand tends to involve poorer families, usually much poorer than those that take advantage of other forms of privatized education.

The Bank emphasizes capacity-oriented privatization, especially of teacher training for primary and secondary schools, as well as institutional capacity building for tertiary and vocational education.

The underlying principle is that strengthening the private sector's role in noncompulsory education over time will release public resources for the compulsory (primary) level. The private sector is emerging as a force governments, donors, and other technical assistance agencies cannot ignore.

Often the term *private sector* encompasses households' out-of-pocket expenses rather than describing for-profit or not-for-profit (religious or otherwise) sectors. And lumpy investments, supporting both private and public education, are the norm.

This paper—a product of the Education Team, Human Development Network—is part of a larger effort in the network to synthesize and disseminate knowledge about private sector development in education. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Shobhana Sosale, room G8-057, telephone 202-473-6490, fax 202-522-3233, email address ssosale@worldbank.org. Policy Research Working Papers are also posted on the Web at www.worldbank.org/research/workingpapers. September 2000. (49 pages)

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FOREWORD

Education can be a strategic investment. Education is important for developing human capital, improving productivity and promoting economic growth. Historically education has been financed and provided by the private sector. During the 20th century, education became the domain of the public sector, to be funded and provided by governments for reasons of nation building, social integration, sharing a set of central values – all necessary to achieve social cohesion. Donors have assisted governments in their effort to improve the quality of education and to promote literate societies. In recent years, however, governments and donors have been working increasingly in resource constrained environments.

This paper evaluates the context within which World Bank education projects have been developed in recent years. The paper traces the World Bank's emerging trends for private sector development in education. It highlights changing trends in the financing and provision of education in some of the Bank's client countries, and describes the types of support that the Bank is extending in response to the changing trends. The findings emphasize the complementary role of the private sector in financing and providing educational services.

This research paper is part of the Economics of Education Thematic Group's effort to synthesize and disseminate knowledge on private sector development in education.

ABSTRACT

Emerging trends in education show that the private sector is playing an increasingly important role in financing and providing educational services in many countries. Private sector development in education has not arisen primarily through public policy design though it has, of course, been affected by the designs and limitations of public policy. This paper traces trends in private sector development in World Bank education projects. In this paper, 11 out of a total of 70 World Bank education projects during the period 1995-97 have been studied to trace the trends. The 11 country examples reveal that the Bank's interest in private sector development is fundamentally in capacity-oriented privatization to address excess demand for education. World Bank lending for private sector development in education does not vary widely from the Bank's overall strategy for education lending: promoting access with equity, focusing on efficiency in resource allocation, promoting quality and supporting capacity building. The Bank's focus on private sector development in education emphasizes increasing private sector access to public funding and opportunities for capacity-building, especially teacher training for primary and secondary levels, and overall institutional capacity building at tertiary and vocational levels. The underlying principle being that strengthening the private sector's role over time at the non-compulsory levels of education will release public resources to be utilized at the compulsory, primary level. The 11 country examples help to demonstrate that the role of the private sector in education is emerging as a large force that governments, donors, and other technical assistance agencies cannot ignore.

Executive Summary

A majority of World Bank supported projects in education focus on improvements in public education. This, however, is not the case in all projects. This paper traces trends in private sector development in 11 World Bank education projects spanning a three-year period (1995-97). The paper explores the issue of how the Bank is supporting and might support an environment for private financing and provision of educational services to flourish alongside public education. The review of projects includes examples of Bank financing in some countries in Africa, Latin America and South East Asia. Evidence indicates that justification for Bank support in the sample countries is based on a reasonably balanced analysis of the respective roles of the private and public sectors in education.

The 11 examples reveal answers to two questions: (1) What have been the rationales for Bank lending in education (sectoral/sub-sectoral) in some of the client countries? (2) In countries where private sector presence exists alongside publicly financed and provided education, how has the Bank encouraged the private sector to thrive? Project Staff Appraisal Reports (SARs) and Project Appraisal Documents (PADs) constitute the basic information sources, along with interviews with task team leaders who were responsible for leading project design and preparation. Analysis of the 11 case studies provides glimpses into the Bank's rationales for supporting private sector development in education. The rationales are multiple and reveal emerging trends in Bank lending. The project examples are not presented as the proven best policies but rather as illustrative approaches, among others, for the particular circumstances confronted by the Bank.

The 11 country case studies reveal that: (a) the role of the private sector in education, both from demand and supply perspectives, has been growing over the years; (b) in the context of country-specific project design, there is a growing need to carry out comprehensive assessments (at the macro or country level, as well as at the micro level) about the respective roles of public and private education to better understand the responsibilities of all parties before projects are designed; (c) in those instances where the role of the private sector is analyzed, there is an absence of a country-specific definition of the "private sector" in education. Often the private sector is a term utilized to encompass out-of-pocket expenses of households rather than for-profit or not-for-profit (religious or otherwise) sectors. In many countries the use of the term "non-governmental sector" encompasses the private sector; and (d) within

those projects that do support public and private education, lumpy investments are the norm – it is difficult to distinguish between support for public education as opposed to private education.

Absorbing excess demand is the main type of private sector activity that is of greatest interest to the World Bank. It is crucial to access, coverage and equity (the focus of the Bank's overall strategy for education lending) for it tends to involve poorer families, usually much poorer than those who take advantage of other forms of privatized education. This does not imply that other forms of privatization such as supporting educational institutions of excellence based on international reputation are bad or unimportant. The Bank is largely indifferent to those when compared to the need to address the issues of excess demand for educational services, particularly at lower levels of education, to supplement public resources, and to tap increased household interest in paying for quality education. The Bank's interest is also in capacity-oriented privatization. This has implications for its policies in lending for education.

Conclusions drawn from the 11 case studies support a middle ground approach to education financing and provision on the basis that public and private sectors have complementary (private-public mix) rather than substitution (private *versus* public) roles in financing and providing educational services. In many cases, particularly at lower levels of education (specifically at the primary level), justification for Bank support to the public sector might be reasonably straightforward. At upper levels of education (secondary, tertiary and training levels), the justification for Bank support of public education tends to be challenging, particularly in countries where private provision (management and ownership) thrives alongside the public sector. In this regard, the emerging role of the International Finance Corporation (IFC) - the private sector lending arm of the World Bank Group - is seen as complementary to the Bank's continued work in education. The paper concludes with a summary of the current initiatives being undertaken by the World Bank Group (World Bank, IFC and the Multilateral Investment Guarantee Agency - MIGA).

I. Introduction and Background

Education can be a strategic investment. Conventional arguments hold that *provision of education* depends on whether education is defined to be a public good or a private good. If the consumption of a good results in *positive externalities* (i.e., spillover effects, that benefit society at large, since an educated population contributes to increased productivity in the economy), it can be deemed to be a public good. A private good by definition is characterized by benefits that accrue to the individual alone. The characteristics of education as an economic “good” reveal that at any one time, it is both a public *and* a private good due to the fuzzy nature of the distribution of benefits. Hence, education can be viewed as a “quasi-public good.” Historically, the private sector was responsible for financing and providing educational services. During the course of the 20th century, however, the role of the state (public sector) assumed predominance for purposes of nation-building and instilling national identity.

Towards the end of the 20th Century, governments are facing numerous constraints in financing and providing educational services:

- (1) Inefficient systems prevail in countries where there is low efficiency in resource allocation. The scenario varies by country. For example, there is great variation in government spending and efficiency levels in sub-Saharan African countries (Mingat and Suchaut 1998). In countries where the requirement is six years of compulsory education, Mingat and Suchaut (1998) find that public expenditure on education as a percentage of Gross Domestic Product (GDP) varies from as low as 2 percent in Uganda to more than 7 percent in Côte d’Ivoire.
- (2) Population growth has been significant in many countries, and globalization is promoting migration. Excess demand and demand from special groups such as ethnic minorities and other disadvantaged people, is increasingly challenging the ability of governments to meet differentiated educational requirements.
- (3) Expansion of public schooling to meet excess demand has imposed considerable strain on government coffers. The cost of keeping and expanding public education systems has become a major issue. Tuition subsidies continue to take up a good portion of public

spending and governments are increasingly resorting to cost recovery measures to meet recurrent expenditures, and to meet shrinking budgets.

- (4) Misallocation of public spending within the public sector domain has resulted in skewed school expansion with inappropriate types of schooling for children from certain backgrounds, leaving out significant proportions of the population – girls, indigenous peoples, tribal groups, disadvantaged minorities, the poor, children with learning disabilities, children with physiological and psychological problems, and homeless children. If skewed expansion is not corrected, equity of access to educational services will become an even larger issue for governments to handle. This implies improving efficiency of resource allocation.
- (5) In many countries misallocation of public spending is also responsible for inappropriate and over-subsidized tertiary education at the expense of basic education.
- (6) The principle of “bearing the burden for education” is directly related to government policies of taxation. In poorer countries where the tax base and tax rates are low, regressive taxation poses problems for governments to generate sufficient tax revenue to fund public education. Under such circumstances, governments seek alternative sources of funding, including funding from donors and private providers of education to supplement public funding of public education.

Excess demand for education can be accommodated in one of three ways: (a) within the context of the public sector, by moving from input oriented, centralized approach to output oriented, decentralized approach; by focusing on the internal market for education within the public sector by reapportioning the inputs mix and by improving efficiency; (b) by focusing on the external market for education i.e., by encouraging private financing and provision of educational services depending on the level of education – initial or terminal/higher education levels; and (c) by focusing on a public-private mix, again depending on the level of education. This paper highlights approaches (b) and (c).

The central purpose of this paper is to provide evidence on two fronts: (1) that across countries, the role of private sector in financing and providing educational services varies by

level of education; and (2) that the World Bank's rationales for private sector development in education are multiple. The paper sets forth some of the key rationales. The main thrust is to delineate not only that mixed education systems prevail in the Bank's client countries, but also to explain that Bank lending essentially responds to country contexts in absorbing excess demand through access beyond that offered by the public sector. In trying to explain variance in privatization in education around the world, as well as the Bank's rationales, the paper attempts to tie the multiplicity of rationales to the multiplicity of factors that give rise to private sector growth in education. The term "privatization" is used not in the sense of selling off assets of public educational institutions to private owners, but more broadly to indicate a dynamic progression in the financing and provision (management and ownership) of education in general, and by level of education in particular.

The paper is divided into seven sections. Section II traces the market for education, substantiated with a review of literature with the purpose of tracing the growing role of the private sector in education. Section III includes a discussion of government's role in the marketplace. Section IV reviews World Bank lending for education during the period 1995-97. Section V summarizes the findings from the country case studies, and describes the approaches of World Bank lending for private sector development in education. Section VI provides a brief overview of the future role of the World Bank Group in education. The paper concludes with a note on the implications of the findings for the World Bank's strategy in education. The annex following the main text summarizes the country case studies.

II. Market for education

The debate on who should pay for schooling, who should support public and private education, and what share of the total cost should be borne by taxpayers rather than by direct beneficiaries is an ongoing one (Cohn and Geske 1990). Riddell (1993) observed that the debate on alternative forms of educational finance is heavily biased in favor of decentralized and private alternatives, almost as if the norm were public, centralized educational systems, although these are the exception rather than the rule. Cummings and Riddell (1992) found that as early as 1975,

of a total 127 countries for which data were available, only 22 countries (17 percent) were found to have had no private schools at the primary and secondary levels, and only 15 countries (12 percent) had neither private schools nor any decentralized funding below the national level.

Supply-side factors. The market response to situations where government provided services do not meet the needs of the people is the demand for and supply of private services. A narrow definition of “private sector” being for-profit institutions and a broader definition encompassing combinations of financing, ownership and management by the entire gamut of for-profit commercial, not-for-profit, religious, charitable institutions, NGOs and communities all constituting non-public institutions. A caution with reference to the last point is that the definition of the “private” sector is not clear-cut in situations where private schools are heavily funded and regulated by the State (James 1993). For example, if one were to consider charter schools it would be important to distinguish between private financing and provision, maybe even ownership and management aspects in defining the private sector in education.

Bray (1996) provides examples of countries where private financing in a publicly provided system is common. Private financing is defined as households’ direct cost of schooling. For example, private financing in China takes the forms of cost recovery which include student fees, cost of textbooks, public security, education funds, office expenses, desk and chair fee, fee for students who are not locals, teaching materials, health checkup, fee for taking care of students’ bicycle in schools (parking facilities), tutoring fee, and funds for teacher retirement. In Thailand household direct costs of primary schooling as of 1987 included school bags, shoes, sportswear and contributions in-kind.

In Chile, historically, public funding of private schools preceded the military junta and even the Marxist government that preceded it (1970-73). As part of reforming its education system, in 1980 the Chilean Ministry of Education began providing capitation grants - fixed payments per student enrolled - to both public and private schools. Because the per-student payment was based on the average cost of education in the public sector, public school expenditures per student were 70 percent less than in the private sector. Private schools eagerly

vied for students because of the government supported capitation grants which essentially reduced expenditures per-student. By 1986 primary enrollment in private schools had more than doubled, from 14 to 29 percent of total enrollment, and enrollment in private secondary schools had increased almost fourfold. Worthy private-public policies are not all of recent origin and have not necessarily come from a new wave of market-oriented regimes.

Issues pertaining to education financing and provision (ownership and management) differ considerably depending on the type of market response. Financing and provision can be vested with the same entity or with different entities. Public/private funding and provision combination varies most fundamentally, by level of education (primary, secondary, tertiary or training), preferences of tax-payers, by country, level of development, time frame under study, type of government or political system, demographic conditions, and the size of the private sector vis-à-vis the public sector.

Today, both developed and developing countries exhibit hybrids (mixed) of public or private financing and/or management in the provision of education. A simple, but useful matrix could be utilized to assess the situation (see Table 1).

Table. 1 **Public/Private Assessment Matrix**

	Public financing	Private financing
Public provision *	<i>Traditional public schools</i>	<i>User Fees</i>
Private provision *	<i>National Voucher Schemes, Chile and the Netherlands Charter Schools, USA Education Action Zones, UK</i>	<i>Home Schooling Pure private schools</i>

* provision encompasses ownership and management

Examples of mixed systems dominated by the state sector include countries of South Asia (including India), Africa and Western Europe (Tilak 1991). Tilak (1991) suggests that these systems can be aptly described as “parallel public and private sectors.” His research shows that in some welfare states such as the Netherlands and Belgium, both coexist under state funding. Tilak (1991) draws from Geiger’s research (1987) that in systems where the private sector has a

very limited role, as in Sweden, the United Kingdom, France, Spain and Thailand, an apt description would be the presence of a “peripheral private sector.”

Demand-side factors. Major determinants of choice between public and private education include a host of variables. Some of the variables are: price, income, wealth, heterogeneity of populations specifically with regard to religion, population density, parental education, location, perception of quality, levels of direct and indirect costs, size of urban or rural area, and other sociological factors such as preference, peer group effects, gender mix in schools (mixed versus all boys or all girls institutions), availability of facilities such as separate lavatories for boys and girls, midday meals being offered, and existence of multi-grade shifts.

Demand for private education services can be viewed as a response to situations where public or government education services are not adequate or of the kind that people would like. In some developing countries, high poverty and low-quality public education force parents to choose between sending their children to school or not at all. In environments where social stratification is the basis of civil society, due to caste and class structures, parental decision to send their children to school is one dimension, the intra-sectoral choice within public and private realms, is another. Choice of public versus private schools may be irrelevant because there are never more than a few schools in a village. Characteristics which generally determine the educational preferences of the poor include the opportunity cost of sending children to school when family size is large, with few adult members who work to support the entire family. Consequently, children have to work most of the day to supplement the income of adult members.

Demand is influenced by other factors, such as the definition of traditional roles of boys and girls within society. In several ethnic groups, parents' decisions are skewed in favor of sending boys rather than girls to school. Female children upon reaching marriageable age are reasoned to be leaving and not contributing directly to the continued welfare of the family and hence do not warrant the same education level as male children. In middle-class families school

choice is based on social status, parental commitment to equip and empower their children with what they consider is appropriate values and knowledge to function in a competitive social or labor market environment.

Excess Demand and Differentiated Demand. Several hypotheses have been tested to explain the phenomenon of increasing enrollments in private versus publicly provided education. James (1993) observed that the large percentage of enrollments in privately provided education at the secondary level in developing countries is due to limited public spending, which creates an “excess demand” from people who would otherwise prefer to use public schools but are unable to find a place. James (1995) further argued that low public spending on secondary education is modeled as a collective decision which is strongly influenced by a coalition of high income, high tax families and low income families who have opted for quantity over quality of children in developing countries. The “excess demand” explanation according to James (1995) helps to resolve a seeming anomaly as to why the private sector has grown relatively large in some developing countries where, paradoxically, the public sector is considered superior, and vice versa. To assert, therefore, that private education replaces public education is incorrect.

James (1993) reasons that differential preferences about quality could also lead to the development of private schools. In particular, a low quality public system may stimulate the growth of a high quality private sector thereby meeting the demand of those willing and able to pay the price. If educational quality is assumed to have a high income elasticity of demand, and if the public sector provides a quality level that just satisfies the median family, greater income diversity within the population implies greater dissatisfaction among upper income people who will seek superior education in the private market. James (1993) cites two examples of such phenomenon: Brazil and the Philippines, where at the secondary level 25 percent and 38 percent of enrollments, respectively, are in private schools that are considered to be better than public secondary schools. But if greater income diversity means that upper income groups also control the government, they may use this power to choose a public system that is high in quality, low in quantity, and rationed to them. In that case, James (1993) argues, a large excess demand may develop as at the higher education level in Brazil and the Philippines.

Private markets function effectively if they provide the pattern of goods and services that consumers prefer, given their levels of income. Private education thrives in a market environment where competition, efficiency and profits are guiding factors. The production of education is considered to be efficient if there is no opportunity in the economy by which more or better education could be produced to make everyone better off. If the efficiency and effectiveness properties do not hold, markets do not function effectively. An important mechanism for promoting efficiency is to increase the scope of competition in providing education. Mechanisms such as demand-side financing (money follows students) are being designed to promote choice in education for reasons of equity in access. Vouchers are increasingly cited as a possible mechanism for this purpose. Students are given vouchers funded by public tax dollars but redeemable at any school, private or public. Parents have the liberty to choose the school their children will attend. This in turn is expected to induce schools to compete for students. For country examples of voucher schemes, see Patrinos and Ariasingam (1997).

Willingness to pay. The other aspect which is important to note is that people are willing to pay for the desired service and cost recovery through fees as a feasible financing method. Empirical evidence from 1990 and 1992 household surveys data indicate a remarkable willingness of households in Bolivia to pay for private education for their children (Psacharopoulos, Arieira and Mattson 1997) (Box 1). Other examples include the Philippines, Colombia, Brazil and Tanzania.

Box. 1. Bolivia: Private Education in a Poor Country

Bolivia is among the poorest developing countries in South America, with a GNP per capita income of US\$800 (1995). High illiteracy and repetition rates are some of the pervasive characteristics of the country. Private education is found at all levels of schooling in Bolivia, and comprises approximately 20 percent of school types (78 percent being public and 2 percent, mixed). In Bolivia, mean household expenditure on private education increases dramatically by income decile. On average, approximately 800 bolivianos/year is spent on private education by families who fall in the uppermost income decile, and about 50 bolivianos/year is spend by families in the lowest income decile. Why are parents willing to undertake such investments? What are the factors which influence private expenditures? The quality of public educational system is low, generating the high repetition rates. Sending their children to private schools might indicate the social status of families. The size of the family i.e., number of school going children in the family is another determinant. In Bolivia, it has been observed that: (i) households with more children spend less per student on private schooling; (ii) Migrants spend less than non-

migrants; and (iii) per student education expenditure varies widely according to the city of residence and the head of household's occupation. Cities with higher public school repetition rates have a higher incidence of private school enrollments.

Source: Psacharopoulos, Ariera and Mattson 1997

Findings of a study jointly commissioned by the World Bank and UNICEF, and conducted by Bray (1996), revealed that poor households in nine East Asian countries (Cambodia, China, Indonesia, Lao People's Democratic Republic, Mongolia, Myanmar, the Philippines, Thailand and Vietnam) already contribute a significant share of the total cost of public education. In these countries, household expenditure on education forms a significant share of household income. Given high inequality and inequity in income distribution, the poorest households' burden is much greater than that borne by the wealthiest households. Findings of the 1996 World Bank-UNICEF study also revealed that in some of the South-East Asian countries mentioned above, household contributions to education are greater than government contributions. In China, for example, where over 70 percent of the population resides in rural areas and where wages are about half of those in urban areas, parents and village communities have financed primary education through cash and/or in-kind contributions for both teachers' salaries and construction of school buildings. In some countries, awareness of such demands on household income discourages parents from enrolling their children in school. Governments and donors have been accused of showing little awareness of the magnitude of the burden to households.

All this goes to show that there is a growing market for education which is characterized by numerous factors pertaining to excess demand, differentiated demand, and consumer willingness to pay for educational services. A comparative analysis of five developing countries - Colombia, the Dominican Republic, the Philippines, Tanzania and Thailand (Jimenez and Lockheed 1995) - revealed that (1) although students in private schools came from more privileged families than those in public schools, on average, there was a significant overlap between the two groups; (2) with student background and selection bias held constant, students in private schools out-performed students in public schools on a variety of achievement tests; (3) unit costs of private schools were lower than those of public schools; and (4) private schools

were organized for greater school-level decision making and emphasis on enhancing student achievement. This the authors concluded seemed to affect the mix of inputs that private versus public schools choose. They observe two policy implications: (1) that over-restrictive regulations on private schools, including outright prohibition in some countries, may be suppressing an efficient way to provide education; and (2) that in some cases governments could encourage greater private sector participation in education, but that the relative efficiency of private schools is highly dependent on the institutional regime and structure of incentives under which they operate.

III. Government's Role in the Marketplace

Governments are not limited to direct financing and provision of public education alone. They can also finance and regulate private financing and provision of educational services. The role of governments is to put in place the "ground rules establishing a framework in which private enterprise can operate effectively and in a manner responsive to the needs of society" (Clausen 1985).

Of late, not only within the private sector, but also within the government sector, school authorities are increasingly expected to operate with market principles in mind (Mok 1997, drawing on research from Lingard, Knight and Porter 1993; Bray 1996). Depending on the nature of the market failure, governments step in to improve matters by adopting appropriate remedies which may take the form of regulation, taxation, or subsidized production by private contractors at public expense (Roth 1987). It is noteworthy that the changing nature of the state is promoting a more transparent and accountable public sector in keeping with the notion of "new public management" - managerialism, the aim in simple terms being more effective control of work practices - and marketization, referring to the development of market mechanisms and adoption of market criteria within the public sector (Mok 1997). Mok (1997) points out that even in China such changes can be traced back to the mid-eighties, when the Communist Party began to diversify educational services, allowing and encouraging the establishment of schools

run by the non-state sector. Mok (1997) notes that in recent years private education has been undergoing a rapid development, particularly in China's big cities. He observes that reductions in state regulation, provision and subsidy in education have already indicated that China's recent educational development marks a move towards privatization and quasi-marketization.

Mok (1997) draws from the definition of privatization that Le Grand and Robinson (1985) and Johnson (1990) delineate, that privatization is closely associated with reduction in state activities, especially reduction in state provision, state subsidy and regulation, and is concerned with the transfer of responsibility for the production of goods and services from the state to the non-state sector (that is, the market, the family, the informal sector and individuals). In short, in pursuing the objectives of enhancing effectiveness, economy and efficiency in the delivery of public services, Mok (1997) observes that market criteria such as profit, affordability, fee-charging and self-supporting, accountability, customer choice and effective management are increasingly being adopted as operational principles in rationing or distributing social services. Mok (1997) points out that the failure of the public sector lies in the absence of an internal market focus - non-measurement of the product and incentives, and to adjust the practices and the mix of inputs. Reform focus could be from outside the public sector, through competition or from inside the public sector. The objective is to make the public sector more efficient to allow private funding and provision of education.

Private financing can be considered as a strong supplement to public financing. Private financing can be utilized either to fund private institutions or to supplement income of publicly funded institutions. Private institutions are typically financed through fees. Some countries prohibit private schools and universities, while others regulate them excessively. Such restrictions crowd out private spending on education that would otherwise have been possible, and increase pressure on publicly funded institutions.

Against this background, what has been the role of the World Bank in fostering private sector development through its lending for projects? How has the Bank promoted public-private partnerships in education?

IV. World Bank Lending for Private Sector Development in Education

According to data from the World Bank's review, *Priorities and Strategies in Education* (World Bank 1995b), the Bank was at the time of publication, the largest single source of external assistance for education in developing countries, accounting for about a quarter of all external support. In the span of 30 years from the first project in 1963 through 1994, about \$19.2 billion worth (over 500 projects in more than 100 countries) was lent to developing countries to finance education projects. Both in absolute and relative terms there was significant expansion in lending for education between 1963-95. Bank lending for education increased from an average of US\$914 million in 1988-89 to US\$1.9 billion in 1995-96, a nominal increase of 108 percent (Bennell and Furlong 1997). Increase in lending has not been uniform in all regions. Bennell and Furlong (1997) report that in sub-Saharan Africa, for instance, Bank lending for education declined markedly from about US\$400 million annually in 1992 and 1993 to a third of this level by 1996, representing barely 5 percent of total Bank lending in the region and less than .10 percent of total Bank lending for education.

In the span of the three years (1995-97) the Bank has provided about \$4.9 billion to assist education reform efforts in its client countries. Overall Bank lending for education dropped from US\$2.1 billion in fiscal year 1995 to US\$1.0 billion in fiscal year 1997. This indicates a 51.5 percent decline in total lending. The trend varies from a sub-sectoral perspective: levels of lending are increasing for pre-primary and higher education; the scenario appears to be more or less constant for secondary general lending; lending for primary education declined from 38 percent in 1995 to 26 percent in 1997. The drop in lending could be attributed to better targeting.

During the three-year period 1995-97, the Bank's lending for education amounted to US\$4.9 billion for a total of 70 projects. Components in 11 out of the 70 projects (for a total of US\$484.2 million), best illustrate the Bank's work on private sector development in education in recent years. The 11 case studies are designed to address the same objectives as the majority of the 59 projects during the 1995-97 period. The difference is that the 59 projects dealt with access/coverage, equity, and capacity building issues in the public sector, while components in the 11 examples focused on providing equal opportunities for the private sector as well. The 11 examples represent neither successes nor failures since the projects have been analyzed at the earliest stages of the project cycle: the design and preparation stages. Finally, the findings do not relate to impact of Bank support for private education.

The 11 examples reveal answers to two questions: (1) In justifying World Bank support for private and public education, what have been the rationales for Bank lending in education (sectoral/sub-sectoral) in some of the client countries? (2) In countries where private sector presence exists alongside publicly financed and provided education, how has the Bank encouraged the private sector to thrive? Project Staff Appraisal Reports (SARs) and Project Appraisal Documents (PADs) constitute the basic information sources, along with interviews with task team leaders who were responsible for leading project design and preparation. In some cases (Mauritania, Indonesia, Comoros), the environment within which the Bank projects were developed has necessitated detailed explanation of the sectoral context. Analysis of the 11 case studies provides glimpses into the Bank's rationales for supporting private sector development in education. The rationales are multiple and reveal emerging trends in Bank lending. The project examples are not presented as the proven best policies but rather as illustrative approaches, among others, for the particular circumstances confronted by the Bank. Table 2 provides a summary.

Table. 2 Private Sector Development in World Bank Education Projects (1995-97)

Country & Year	Types of assistance		Level
	Institutional development	Alternate funding mechanisms	
Dominican Republic 1995	Strengthening public entity to better manage and assist private providers of education. Opportunities for training private sector school teachers.		Primary and secondary Education
Maldives 1995		Fellowship program for private sector teacher development on cost recovery basis	Primary and Secondary education
Chile 1995	Strengthening sector managerial capacity to improve internal & external efficiency, quality and equity of municipal & government subsidized private secondary schools		Secondary technical and vocational education
Mauritania 1995	Modifying legal framework to facilitate private sector expansion Expanding training opportunities for private school teachers		All levels except higher education
Argentina 1995	Self evaluation of public and private sector universities	Competition for funding through permanent instrument FOMEC	Higher education
Senegal 1996	Strengthening capacity of non-government sector to deliver effective programs; capacity of public sector to monitor, evaluate and coordinate sectoral investments		Adult education
Burkina Faso 1996		Matching public-private grant scheme for additional private school classrooms	Lower secondary education
Mali 1996	Assisting private sector employers to develop human resource plans; Private sector participation in negotiations to move informal training into formal training	Vocational Training Skills Fund (VTSF) for skills upgrading to bring informal into formal sector. Government tax for sustaining project benefits	Vocational and technical training
Indonesia 1996	Competitive principles to encourage private-public institutions; TA to assist government in articulating competitive & decentralized strategy for assisting graduate research		Higher education
El Salvador 1997	Quality improvement in teacher training and curriculum programs for private schools.	Public funding of scholarship program as opposed to student loans (high cost of administration and low collection rates) for private sector. Private banks to transfer funds to students.	Secondary education
Comoros 1997		Vocational Training Fund (VTF) for private sector participation; Contract training program: sub-projects by public & private institutions through competition for VTF resources based on pre-defined qualifications and selection criteria. Partial cost recovery from beneficiaries.	Vocational and technical training

V. Findings

Emerging trends for private sector development in education do not vary widely from the Bank's overall strategy for education lending: promoting access with equity, focusing on efficiency in resource allocation, promoting quality and supporting capacity building. The Bank's emerging trends for private sector development in education emphasize increasing private sector access to public funding and capacity-building - especially teacher training for primary and secondary, and overall institutional capacity building at tertiary and vocational levels. The projects are designed to respond to excess demand for opportunities, to improve the quality of privately provided educational services, and indirectly to provide vital, additional resources. Private sector entities are required to participate in financing training and resource mobilization mechanisms on a sliding scale basis to sustain project benefits in the long run. The underlying principle being that strengthening the private sector's role over time at the non-compulsory levels of education will release public resources to be utilized at the compulsory primary level.

The 11 country examples reveal that the Bank's interest in private sector development is fundamentally in capacity-oriented privatization to address excess demand for education. The case studies reveal that:

- Many of the Bank's client countries have existing, explicit policies toward promoting public and private education alike. In many instances, the role of privately financed and provided education is significant. Under the circumstances, any form of external support must take into consideration the value added by both the public and private sectors, individually as well as complements.
- There is a move to utilize public funding for private sector improvements, as shown in the country case studies. Governments have borrowed to provide opportunities to the private sector to access financing, and to take advantage of opportunities for training and capacity building at compulsory and non-compulsory levels of education.
- The existence of mixed public-private education systems is more predominant at the secondary, vocational and tertiary levels of education (i.e., non-compulsory level).

- Private institutions are predominantly located in urban and peri-urban areas.
- The definition of the “private sector” in many of the country case studies is unclear. For example, no distinction is made between for-profit, not-for-profit and religious institutions. Moreover, parents’ out-of-pocket expenses are also included in the definition of the “private sector.”
- The Bank’s support in monetary and technical assistance terms is relatively small. The support has been extended for input-oriented quality improvements for private education, with a large portion being for capacity building, accreditation and teacher training. A major portion of Bank funding, however, is still being utilized for access and quality improvements to public education.
- The Bank is supporting alternative funding strategies for private sector access to education – scholarship and fellowship programs. In many instances competitive processes have been put in place to foster quality improvements.
- Bank assistance focuses on policy-based investment for capacity-oriented privatization, a similar approach to that being utilized for public education.

Bank support for private sector development in education has predominantly addressed institutional development and alternative funding mechanisms with the underlying principles of:

1. Demand absorption through improved access and equity to private sector for public funding
 - Equity in all municipal and government-subsidized private secondary schools (Chile)
 - Pilot program to initiate public support for private schools assisting low-income populations (Dominican Republic)
 - Policy-based investment for selection of best teaching candidates from either public or private sector with a focus (80 percent earmarked for lower cost regional training institutions). The objective is to increase opportunity for private sector teachers to take advantage of public sector training teacher training fellowships. The mechanism is, however, not based on a voucher system but on appropriate eligibility criteria (Maldives)

- Public support for policy reform and investment to promote private sector provision of education, specifically to increase access to schooling (Mauritania)
- Public support for promotion of non-governmental literacy programs (Senegal)
- Public incentives to promote expansion of private sector schools (Burkina Faso)
- Public support for enrollment expansion in both public and private secondary schools (El Salvador)

2. Quality improvements in private and public education

- Strengthening sectoral managerial capacity to better manage and assist private providers of education (Dominican Republic, Chile); capacity to develop human resource plans (Mali); articulating competitive and decentralized strategy for assisting in graduate research (Indonesia); developing apprenticeship training certification criteria (Mali)
- Expanding opportunities for teacher training (Mauritania, Mali, El Salvador)
- Self evaluation of public and private sector universities (Argentina)

3. Alternative funding mechanisms and competitive processes

- Fellowship programs for private sector teacher development (Maldives); matching grant scheme for additional private school classrooms (Burkina Faso); skills training funds (Mali, Comoros)
- Competitive processes for funding (Maldives, Argentina)

The case studies reveal that: (a) in the context of country-specific project design, there is growing need to carry out comprehensive assessments (at the macro or country level, as well as at the micro level) about the respective roles of public and private education; (b) in those instances where the role of the private sector is analyzed, there is an absence of a country-specific definition of the “private sector” in education. Often the private sector is a term utilized to encompass the entire gamut of private participation: out-of-pocket expenses of households, for-profit, non-profit (religious or otherwise) sectors; and (d) within those projects that support

public and private education, lumpy investments are the norm – it is difficult to clearly distinguish as to how much investment is being channeled for supporting private sector development in education.

Addressing excess demand for education is a primary concern for all governments and donors. The responses to excess demand depend on the level of education under review: primary/initial, secondary, tertiary/terminal or vocational (for a succinct discussion, see Mingat and Suchaut 1998:215). The change agents lie in two domains: either within the realm of the public sector, or through a mix of public-private financing and provision of educational services. Within the domain of the public sector, some countries use input-oriented, centralized systems. Here, addressing excess demand could mean moving to output-oriented, decentralized systems such that more options for additional resource mobilization, such as private funds (from firms and industry), are tapped. Alternatively, the problem could be tackled with a public-private mix, where the market for private services assumes a portion of the burden and the internal market within the public system assumes another portion. Here the input mix and efficiency aspects would be oriented in such a manner that the public and private sectors complement, and do not substitute, one another.

Further investigation into project progress needs to be carried out within the next year or two to assess the progress of project implementation. The country examples help to demonstrate that the role of the private sector in education is emerging as a large force that governments, donors and other technical assistance agencies cannot ignore.

VI. The Future Role of the World Bank Group in Education

The Bank Group has taken note of the emerging global trends, and is now exploring several options to collaborate with the private sector.

- *World Bank and IFC partnership in education:* As early as May 1996, the International Finance Corporation (IFC) - the private sector lending arm of the World Bank Group - has

been involved in lending for private education. New opportunities are arising for IFC to help expand access to education. By expanding resources available to education and by promoting private participation in the sector, the Beaconhouse project will help to reduce the financial burden on the Government of Pakistan. It is expected that the development of quality private education through the Beaconhouse project will, through competition, lead to improve standards and efficiency in both public and private schools. The project will also promote education of girls. Forty percent of Beaconhouse students are girls and women account for 70 percent of all staff and occupy most of the key positions.

In 1997, the IFC financed the expansion of one of Nairobi's leading moderately priced private educational institutions, the Makini School. Middle-class Kenyan parents' disappointment with the quality of public education have created a booming market for such schools, which currently have a combined enrollment of 20,000 students in Nairobi. But with local banks generally unable to lend at maturities beyond three or four years, few can afford to expand, given the long gestation period of most education projects. IFC is helping fill this void by providing a long-term loan to Makini, a profitable and well-run nursery and primary school that will add secondary grades and establish another school to meet strong demand from parents. The resulting quality education will increase employment opportunities for the students, serve as a model for other such ventures, and create 126 jobs for teachers and administrative staff (IFC 1997).

As of May 1999, IFC investment in education numbered 11 projects for a total amount of US\$100 million of which IFC financing is US\$44 million. IFC applies the following broad criteria to assess the viability of education project proposals: (a) the *Business Case* to determine whether there is a market for education in the country, level of competition, management structure, type of private education activity (for profit), aspects relating to government control of private education; (b) the *Education Case* to determine project effectiveness, student achievements, innovation in education, and levels of skilled staff; (c) The *Social Case* to determine the extension of educational opportunities to the local community, outreach aspects, financial aid from different sources; and (d) the *Economic*

Case to identify potential for enhancing human capital and cost effectiveness of project proposals. While the Bank has education policy and public investment expertise, IFC has private sector investment expertise. Continued information exchange between the Bank and IFC, even joint missions under appropriate circumstances would provide opportunities for clearly targeted policies and investments in client countries within the public and private sectors.

In 1997-98, IFC sponsored a global study on potential investment opportunities in education. The study highlights the importance of the World Bank Group's role in assisting governments to create enabling environments through appropriate regulatory framework for the private sector to function in an unfettered manner alongside the public sector in order to enhance the educational and developmental viability of education projects (Tooley 1999:126). More recently, in November-December 1999, in an effort to bring together private sector investors in education, the IFC and the Bank jointly sponsored a conference on Investment Opportunities for Private Education in Africa was held in Abidjan, Côte d'Ivoire.

- *An explicit strategy for private sector development in education:* The World Bank's 1999 Education Sector Strategy Paper (ESSP) sets out some priorities in the context of changing international trends. More specifically, the Bank's strategy would be to encourage investment in education. ESSP clearly recognizes that it is part of many governments' strategy to expand education supply – especially of secondary and tertiary places and technical and vocational training – by encouraging investment by not-for-profit groups and entrepreneurs (World Bank 1999:x). The World Bank is working in several West African countries (targeting especially Senegal, the Gambia, Côte d'Ivoire and Mauritania), surveying the market for education and helping governments create an enabling framework for private sector development in education (World Bank 1999:35).
- *Facilitating information exchange:* In February 1999, the World Bank Group (World Bank, IFC and the Multilateral Investment Guarantee Agency - MIGA) created an education investment information facility called Edinvest [<http://www.worldbank.org/edinvest/>].

Edinvest is a forum for bringing together individuals, corporations, and other institutions interested in education and the future of developing countries. As a service of the World Bank Group, Edinvest will provide information for making private investment in education possible on a global scale.

- *Educational materials and the private sector:* The role of the private sector in educational teaching and learning materials should also be emphasized. Huge amounts of funds in the form of aid (loans or grants) are being channeled to support the ultimate objective of putting educational books in the hands of end users. The role of the publishing industry is crucial in this activity. In September 1998, the Bank invited stakeholders (representatives from publishing houses and publishing associations in both developed and developing countries, as well as donor representatives with a strong interest in developing publishing capacities in developing countries) from different parts of the world to share their experiences. The objectives were to: (i) better understand the stakeholders associated with educational books, (ii) delve into the issue of whether current processes are effective, and (iii) acquire an understanding about the education book industry. For papers and discussion on the proceedings of the conference, see Sosale 1999.

The World Bank is currently reviewing its lending policy for textbooks, and will recast procurement procedures applicable for textbooks. The World Bank textbook policy note will emphasize the responsibility of the private sector and promote competitive processes for the development, production and delivery of textbooks and reading materials as characteristics for sustainable book provision. Efforts will be directed toward breaking up monopolies in textbook development, production and delivery. Meaningful partnerships between local and foreign companies, particularly in the area of electronic publishing will be emphasized. The Bank seeks to act as catalyst in promoting local, private publishing industry to thrive while continuing to respect the role of the government.

VII. Conclusion

Absorbing demand is the main type of private sector activity that is of greatest interest to the World Bank. It is crucial to access, coverage and equity (the focus of the Bank's strategy for education lending) for it tends to involve poorer families, usually much poorer than those who take advantage of other forms of private education. This does not imply that other forms of privatization such as supporting educational institutions of excellence based on international reputation are bad or unimportant. The Bank is largely indifferent to those when compared to the need to accommodate excess demand for educational services particularly at lower levels of education, declining public resources and increased household interest in paying for quality education. The Bank's interest is also in capacity-oriented privatization. This has implications for its policies in lending for education.

The Bank's unique position in leveraging financial and advisory resources, together with its ability to provide a risk cushion that attracts other multilateral and bilateral donors to lend for education, combine to vest with the Bank: (1) responsibility for the impartial analysis of economic and financial changes in the course of development; and (2) opportunity to spearhead appropriate changes to support changing priorities of client countries, and therefore responsibility to devise creative mechanisms jointly with client governments and other partner agencies to ensure that public resources are optimally utilized in line with changing priorities. In short, the Bank's role now and into the 21st century is to act as facilitator and catalyst for policy direction and analysis, and by far the most important, for exploring new directions in development with the assistance of partner agencies.

COUNTRY CASE STUDIES

Dominican Republic: *Public support for private schools assisting low-income populations*

As of 1995, private investment in the Dominican Republic at preschool, primary, and secondary education levels accounted for a significant share of total education spending. It comprised a quarter of overall allocations to preschool and primary education and almost 40 percent of secondary education. Over 1,500 private primary and lower secondary schools appear to have been operating in urban areas. The majority of these schools served low-income, urban areas. Private education in the Dominican Republic is supervised by the Private Schools Directorate (PSD) of the Secretariat of Education, Arts and Culture (SEEBAC). As of 1995, SEEBAC reported to have been spending 1 percent of its budget on preschool services and 67 percent on basic education. Secondary services received 21 percent and 10 percent of public spending was allocated to adult and technical education. The economy of the Dominican Republic suffered serious internal and external imbalances during the 1980s, which finally resulted in the economic trough during 1990-91 recession. GDP declined by 6.8 percent and 1 percent during the two years.

Growth in private school enrollments, based on demand and parents' willingness to pay, helped to maintain the relatively high enrollment ratio in basic education (around 90 percent) throughout the 1985-91 crisis in publicly financed and provided education. As of 1997, some 750 private institutions that participate in the New Economic Plan activities appear to have been accredited by SEEBAC. Accreditation encompasses teacher training activities and purchase of learning materials. These institutions appear to have been operating at a level of quality comparable to, or slightly better than, public schools: 1994 results of a new national assessment have indicated scores of 71 percent and 63 percent for grade four and eight students in public schools and scores of 76 and 74 percent for children in the same grades in private schools.

As of 1995 nearly 800 private schools had not met accreditation standards, and lacked trained teachers and other inputs, and an unknown number of small schools were operating informally in areas lacking public and recognized private schools. Improved information on the unaccredited and informal schools collected up to the New Economic Plan implementation stage suggested that the unknown number of small schools represented a cost-effective means to expand and upgrade basic education, in particular to better serve rapidly expanding peri-urban populations. Mechanisms to channel support to small schools operating in areas lacking public and recognized private schools are scheduled to be developed during the second phase of the Plan. Lessons of experience suggest the advisability of strengthening private as well as public schools to improve basic education.

In late 1995 the Government signed a US\$37 million equivalent World Bank loan to make improvements to the basic education system. One of the objectives of the *Second Basic Education Development Project* is to increase enrollments and especially completion rates, with

priority directed to children from low-income families in the two lowest income quintiles in peri-urban and rural areas. For the purpose, a small pilot program (US\$3.7 million) provides support to private schools assisting low-income populations. The program covers 40 percent of poorest districts in line with school planning inventory, and technical and financial assistance for private, peri-urban schools serving children from families in the two lowest income quintiles. The expectation is that the pilot will initiate public support for private schools serving low-income populations. Based on experience of the pilot phase, proposals will be developed for broader support to private schools.

Implementation of the pilot component vests considerable responsibilities with the Government department SEEBAC, which will guide the effort, with the assistance of NGOs who are actually executing the pilot. SEEBAC identifies and retains NGOs with experience in community assistance to identify schools to be upgraded based on population served. Parents' associations and school directors at the selected institutions then prepare school development plans for review by SEEBAC and the identified NGO(s). Anticipated educational improvements would include similar inputs as that provided in the project for public schools – school materials and supplies for students and teachers, and teacher training through the SEEBAC programs. During the pilot phase, facilities improvements are limited to minor works and provision of technical assistance on space use – improving ventilation and lighting – and maintenance.

Technical assistance and training are being provided to SEEBAC's Department of Private Schools to ensure effective implementation, monitoring and follow-up. A new initiative appears to be the setting up of a private school management information system which is to be eventually integrated into the existing MIS of SEEBAC. The objective of the private school MIS is to improve census and baseline educational information. The experience of the pilot program would be evaluated to determine whether proposals could be developed for broader support for private schools.

Monitoring of the first year of operation included: (i) Studying options and criteria for attendance and preparing a progress report to document the findings; (ii) Identifying three NGOs to administer the program; (iii) Preparing a report on requests for financing based on method and criteria for implementation; (iv) Training 25 technicians of the SEEBAC Private Schools Directorate to prepare them for the program. By the fifth year of operation: (i) 500 private school teachers as well as 150 directors and owners of private schools will be trained; (ii) 200 private schools will have new or repaired desks and blackboards; (iii) 100 private schools will be equipped with basic libraries; and (iv) 20 percent of private schools will receive teaching materials. These definite targets demonstrate support to private institutions which can be quantitatively monitored. Qualitative indicators, however, are not specifically stated for the pilot component. The bulk of World Bank lending goes for improvements to publicly provided education. The pilot program is aimed at extending opportunities for training private sector school teachers, and for providing access to teaching and learning materials. In short, for institutional capacity development and educational inputs.

Maldives: *Increasing access for private school teachers to publicly funded training*

Maldives is an archipelago comprising about 1,198 small coral islands in the Indian Ocean. The country is grouped into 26 atolls and these form a long narrow chain. Of the 200 islands which are inhabited, only three have populations of over 4,000 persons. Population settlements are highly dispersed and scattered. Costs of delivering social services are very high. Approximately 75 percent of students in atolls attend community and private schools.

Maldives has high overall private participation and cost recovery in education. Access to schooling is less than 20 percent in the areas of the country where nearly 70 percent of the population is concentrated. Approximately 50 percent of lower secondary students attend private secondary schools in Male (the capital). The private education system receives public subsidy for teachers' salaries – the Government pays roughly 80 percent. The community meets all other costs. At the secondary level teacher salaries and all other costs are privately financed. In all private and public schools, students are responsible for buying their own textbooks and school materials. Demand for education is growing, particularly at the secondary level. Meeting the widespread demand for increased access to education will be difficult in a macroeconomic environment of considerable fiscal constraints.

Over the last decade, access to education appears to have expanded rapidly. In 1993 the gross enrollment rate (GER) was over 133 percent at the primary level, 21 percent at the secondary level, and about 3 percent at the post-secondary level. Although favorable in terms of the country's progress over time, in relation to the averages in Asia (96 percent at primary, 60 percent at secondary, and 4 percent at post-secondary levels), the Maldives GER levels are still lagging. At the same time, the economy is suffering from skills shortages. Skills gaps are being temporarily met by large numbers of expatriates. The high cost and frequent turnover of expatriate workers reduce the profitability of private sector activities, and in the long run, are likely to dampen competitiveness. Demand for skilled workers in the private sector is expected to climb rapidly. As of 1995, fellowship training was available only to individuals working in the public sector since the program was designed to serve Government employees only. The private sector has experienced difficulty recruiting and retaining trained Maldivians. No scholarship or student loan arrangements were available to Maldivian students who now work or plan to work in the private sector.

In order to extend the private sector with the opportunity to benefit from fellowships, and to better match increased fellowship requests and national development priorities, in 1995 the Government and the World Bank jointly designed the *Second Education and Training Project* (US\$13.4 million credit) to improve education and training in the country. World Bank funding will be utilized to strengthen the quality of basic education, improve access to secondary education and increase training opportunities for teachers. The project is designed to support training for atoll primary teachers (80 percent being women) to upgrade their skills. Secondary education will be made more widely available in the atolls.

The project includes a specific component for a fellowship program (US\$6.2 million). A policy-based investment is designed to allow for the selection of the best candidates (school teachers) from either public or private sectors for overseas post-secondary training. The program would allocate about 25 percent of the fellowships to the private sector with about 80 percent earmarked for lower cost regional training institutions. Sustainability measures would be introduced through partial cost recovery for all overseas fellowships, and to encourage compliance and to compensate for the lack of domestic higher education institutions. For the public sector, cost recovery will help reduce the fiscal burden on Government and assist in building up a pool of domestically generated funds that can be used to defray part of the costs of fellowship training.

The fellowship program would institute a payback mechanism so that the private sector can participate in fellowship training. Recovered costs are expected to be used to finance new fellowships, as well as help match better, the incidence of training costs and the appropriation of private benefits. Trainees will have an incentive to select cost-effective training sources. Cost recovery rates would be proportional to the cost of training i.e., higher for higher cost programs. Modular courses would provide training for private sector specific requirements. An estimated 95 students in the private sector (versus 130 students in the public sector) are expected to be trained during the project implementation period (50 for 1-year technical training; 30 for 2-year diploma/certificate training; and 15 for 4-year degree program).

An administratively simple, uniform cost-recovery formula is envisaged for all participants. Individuals sent on fellowship training will have the option to work either in the public or private sectors. Students who do not return from overseas training are obliged to reimburse the full cost of their training to Government. Students who receive awards under the project will be obliged to repay part (10 to 50 percent including travel, stipend, books and fees) of their overseas scholarships. The amount to be repaid is determined as the "fellowship repayment obligation" (FRO) and will be denominated in foreign exchange, but will not be subject to interest payment. Students accepting a fellowship will sign a guarantee to repay the FRO upon return from overseas training. A second guarantor will co-sign the students' guarantee. Students working for the public sector (Government) will receive a 10 percent reduction in FRO for each year of service. The ceiling is limited to two years of public service. Students accepting jobs in the private sector are not entitled to the 10 percent benefit. Repayment would begin immediately after the student returns to the country. Repayments are designed to be spread out over no more than three times the training period. For example, Student A in the private sector undertakes a 4-year fellowship at an overseas institution. The total fellowship cost is US\$20,000. At the end of the program, student A's fellowship repayment obligation (FRO) is US\$6,000 (0.3 times US\$20,000). The FRO must be repaid over a 12 year period (three times training length), giving a monthly repayment amount of US\$41.67.

An annual training program will be prepared by Ministry of Planning, Human Resources, and Environment (MPHRE's) Scholarship Section (SS), and reviewed and finalized by the National Scholarship Board (NSB). Decision with regard to eligible fields for private sector fellowships would be jointly made by the Labor Section of MPHRE, SS, NSB, and a private sector consultative group. Private sector representation in SS would be ensured through the

participation of at least two persons from the private sector consultative group. Skills gaps will be identified through interviews with private sector employers, and monthly review of expatriate employment applications. A labor market survey was conducted during the project design phase. The project will also support graduate employment in the private sector. NSB will be responsible for resolving fellowship repayment disputes.

Chile: *Increasing access, quality and managerial capacity of private schools*

In early 1995 Chile signed a US\$35 million World Bank loan for a *Secondary Education Quality Improvement Project*. The loan is specifically meant to strengthen sectoral managerial capacity for improvements to internal and external efficiency, quality and equity of all municipal and government-subsidized private secondary schools – estimated to be around 1,600. Loan proceeds are to be utilized to: (i) improve access to both private and public secondary schools; (ii) quality improvements in all municipal and government-subsidized private secondary schools; and (iii) assistance to strengthen sectoral managerial capacity for improvements to internal and external efficiency.

A technical support network (TSN) comprising universities, professional institutes, local and international experts, the private sector and NGOs will provide technical assistance to participating secondary schools for training, development of learning materials and curricular needs. One of the means devised to improve external efficiency by providing incentives to strengthen the linkages between targeted technical and vocational secondary schools and the private sector in curriculum development, skills certification, in-service teacher training, and use of physical facilities. Curriculum will, therefore, be designed and approved with high participation from the private productive sector.

The project will provide a total of US\$0.7 million (about 0.4 percent of base costs) to support in-service teacher training fellowships for technical and vocational training teachers in a private sector working environment. Participating private firms will also receive assistance to design, implement, and monitor in-service teacher training which would take place in their own facilities. Participating firms will design the training modules. Technical and vocational secondary schools will be encouraged to prepare school-based initiatives (PDEs) to promote the participation of private firms in the delivery of technical and vocational education. In addition, mechanisms will be established to foster the participation of the private sector in the design of core curriculum and specifications of skill certification. Finally, assistance will be provided to institutions to implement a dissemination campaign to inform the private sector about the benefits of a law (No.19.247) passed in 1993 which is geared toward private sector contributions to education. The 1993 law sets out the regulations and mechanisms for using fiscal incentives provided under the law.

Performance indicators of equity will utilize repetition rate, drop-out rate, average secondary school drop-out rate, average number of years to complete secondary cycle, and average number of correct responses in language and mathematics by type of school ownership (paid-private, municipal, and private-subsidized schools) for internal efficiency and educational

quality, and by type of social and educational risks attached to secondary education student population (high-risk, medium-risk, and low-risk schools) again, for internal efficiency and educational quality. Base ratios will be determined as starting points. Project implementation appears to be progressing well, with minor adjustments to ensure coordination between various implementing agencies.

Mauritania: *Public support to promote private sector provision of education*

The Ministry of Education of Mauritania operates a formal education system consisting of six years of primary schooling (*enseignement fondamental*), and three years each of lower- and upper-general secondary education (*collège and lycée*). Secondary technical education is provided in two-year programs at technical colleges to lower-secondary graduates and in technical *lycées* to upper-secondary graduates. Higher education is provided by University of Nouakchott and five post-secondary specialized institutions. Primary teachers are trained at two teacher training colleges, and secondary teachers at the *Ecole Normale Supérieure*, which is associated with the University.

Enrollment data as of 1993/94 were 220,000 students at the primary level, 41,200 at the secondary level (1,200 in technical schools); 800 students at the two teacher training colleges, 200 at the secondary teacher training school; about 10,000 at the University level (7,500 in-country and 2,500 abroad). At the primary and secondary levels, Arabic (in public schools) and French (in private schools) were official mediums of instruction. In 1993/94 approximately 94 percent of primary student and 89 percent of secondary students received instruction in Arabic. Gross enrollment ratio at the primary level was 71 percent and 12 percent at the secondary level. Until recently, Arabic was the medium of instruction in public schools in Mauritania. The quality of education was not up to par with what was required to prepare students for higher education. Private schools on the other hand utilized French as the medium of instruction. The demand for the latter was increasing due to the usefulness of a French-based education since it provided school leavers with a competitive edge over their public sector counterparts. In response to changing trends in demand for education, the Government has now reverted back to a fully French-based medium of instruction in the public schools.

Government's policy includes a number of measures to promote market forces. Among other measures: (a) maintaining a liberalized foreign exchange system and monetary policies; (b) completing privatization of public enterprises, and adopting reforms in the legal and regulatory framework for private sector operations; (c) broadening the tax base and raising domestic savings; and (d) increasing government expenditure for basic education and primary healthcare in line with expanding demand.

Demand for formal education appears to be increasing significantly, bringing to the forefront several issues: (i) the problem of access at the primary level in certain regions of the country, and especially among girls; (ii) at the secondary and higher levels, pressure for access is outpacing Government capacity to comply; (iii) quality of services at all levels is questionable;

and (iv) inadequate planning and ineffective management have led to the mushrooming of education enterprise at high cost and with unsatisfactory results.

Authorization to establish private schools was provided in 1981. The objective of such sanction was to help relieve increasing pressure on the public education system. Enabling legislation passed in 1982 defined the rules that govern private school operation, requiring them, *inter alia*, to comply with the pedagogical requirements, responsibilities and methods applicable to public schools, and permitting private schools to collect fees to offset operating costs. The first private schools emerged in 1983 with Nouakchott leading the way with other urban centers following. In 1986, an association of private schools (*Association des Ecoles Privées* - ASSEP) was established to represent the interests of private school operators. By 1994 the private school network had grown to about 35 schools with a majority (25) in Nouakchott. 1994 data indicate enrollments of 3,300 at the primary level and 2,300 at the secondary level. They constituted 1.4 percent and 5.4 percent of the 1993/94 national enrollments.

Private education in Mauritania is important. It represents 18 percent of total primary and 80 percent of secondary enrollments. More than 95 percent of all private schools appear to receive Government grants to cover salaries of teaching and administrative staff. There are different funding mechanisms for private schools: for private primary schools, Government pays teachers' salaries directly; for private secondary schools, Government provides grants determined on the basis of a Comprehensive Grant Formula based on (i) staff payroll; (ii) availability and quality of facilities such as laboratories, workshops, libraries and recreational areas; (iii) mix and quality of academic programs; and (iv) return to owners' investment and administrative costs, administered by the Private Secondary Schools Authority (PSSA) which retains a five percent fee for its services. Government aided schools are not permitted to charge tuition. Thus, while the provision of education by private schools is in the hands of private owners or operators, the funding is essentially public.

Considerable difference in quality between state and private schools has been observed. State schools seem to be endowed with better facilities, better teachers, and better financing. There is intense competition among pupils to gain admission into the better schools, both to the state and private schools. Growth of private schools seems to be constrained by: (i) legal and fiscal regulations that limit access to affordable funding for school construction, and lack of allowance for exoneration of customs duties for imported educational materials; and (ii) inadequate access to Ministry of Education operated teacher training and upgrading of programs and pedagogical support services.

In 1995, the Mauritanian Government with assistance from the World Bank prepared a *General Education Project (Education V)*, amounting to a credit of US\$35.0 million. The project was designed to assist the Government in implementing the fifth education sector development program over a five-year period (1995-2000). The objectives of the project are to: (i) increase gross primary enrollment ratio from an estimated 77 percent in 1994/95 to 100 percent by the year 2000; (ii) double the intake into lower secondary school; (iii) improve the quality of education at all levels; and (iv) improve the efficiency of resource mobilization and use in the sector.

To help achieve the objectives, one of the project efforts would be to support policy reform and investment to promote private sector provision of education. The effort would be directed toward: (a) Supporting Government's policy of increasing private sector provision of education to 10 percent (in 1993 it was approximately 5.4 percent of national enrollments – 325,740 at all levels) of total enrollment by the year 2000 by modifying the existing legal framework to facilitate private sector expansion in education, exempting private schools from paying customs duties on imports of educational equipment and materials, retro-ceding public schools to the private sector, and by introducing measures to facilitate access to credit. (b) Expanding opportunities for pre- and in-service teacher training of private school teachers by permitting them access to training provided to public school teachers. And (c) Facilitating the establishment of an office in the Ministry of Education to focus on private school matters, and adopting legal texts relating to the creation and operation of private schools.

Only a small fraction of World Bank support is earmarked for the private sector development component. The component on strengthening sector planning, management and resource use will also support promotion of private sector education, and ensure competent project management and coordination. One of the dimensions of project support would be to assist with the computerization of education statistics, training counterpart staff, and conducting local seminars on data collection and verification.

Argentina: Institutional strengthening of public and private higher education institutions and a competitive funding mechanism

Argentina has a booming private sector in higher education which caters to the rich. Private institutions providing tertiary education would like to attain university status. Until 1995 a system of accreditation and evaluation of programs for higher education did not exist. There were no set of rules to guarantee the quality of higher education. As a consequence of neglect and years of low and misdirected investment, the quality of education has deteriorated. Compared to Korea, Argentina's higher education system produces one-fourth fewer graduates per million inhabitants, and the number of graduates is stagnating.

The Argentinian Government's new strategy is to improve the legal and regulatory environment for the creation of new institutions and programs in both the public and private sectors, for university management and for quality evaluation. In this regard, the focus is on establishing a common legal framework for private and public institutions, which includes evaluation and accreditation mechanisms. The first step to addressing education reform was Government's strategy to pass a comprehensive Federal Education Law (FEL) in 1993. The FEL, besides setting out the objectives, structure, administration, and financing mechanisms for the education system, also specifically defines the role of the private sector and its rights and obligations in providing educational services. At present, therefore, legal measures for controlling and supervising the role of the private sector in the higher education system do exist. The new strategy defines the roles of various consultative agencies such as *Consejo Interuniversitario Nacional* (CIN), *Consejo de Rectores de Universidades Privadas*, and

Consejos de Planificación Universitaria Regional. A decree passed in 1993 helped to remove most of the barriers to the creation of private higher education institutions. During the same year in addition to 21 existing private institutions, about 15 new ones were created.

In 1995, the Government signed a US\$165 million World Bank loan for a *Higher Education Reform Project*. The project encompasses four studies to diagnose, design and reorganize the private sector monitoring, filing, and accountancy systems and legal services. US\$2.2 million is allocated under the institutional strengthening component for private sector institutions. The private sector aspect is subsumed in the overall institutional strengthening of public and private institutions. The project also supports (US\$10.2 million) the establishment and operating cost for a National Commission for University Evaluation and Accreditation (CONEAU). The Council of Private University Rectors is represented on the CONEAU committee to promote the process of self-evaluation by public and private universities, and to consolidate and extend the external evaluation of the universities. Accreditation is essential for institutions to compete for funds through the Fund for Enhancement of Educational Quality (FOMEQ). FOMEQ was established in 1995 as a permanent instrument. FOMEQ is responsible for allocating grants to public institutions. Vested with US\$70 million from the IBRD funded project, FOMEQ is the official Fund which will promote quality improvements through establishment of a set of criteria to evaluate competitive proposals for funding from public institutions only. This implies that private institutions are free to tap resources in whatever form they might find accessible.

Monitoring and evaluation of those portions of the project which focus on private sector institutions relate mainly to the four studies to reorganize a private monitoring system. Process indicators include assessing the number of reorganization studies completed during the first two years of the project. Overall, the amount actually earmarked to support private higher institutional reorganization is unclear since project costing for support to public and private institutional improvements are pooled together. An important lesson of experience from previous lending for higher education projects is that a positive environment for private institutions is extremely important for the private sector to complement public sector efforts in providing higher education.

The public university system in Argentina appears to be contending with considerable weaknesses in the face of macroeconomic changes. The comparison and contrast between public and private universities is unclear where quality aspects, internal efficiency, evaluation of output, and data collection are concerned. Considerable effort was expended in trying to obtain information on the role of private higher education in the overall system during the project preparation phase. In keeping with established practices and mandates, the Bank has worked within the confines of Government strategy to reform the higher education system.

As a means of influencing quality of higher education, a national system for accreditation and evaluation (of new programs) has been set up. An independent organization, CONEAU, was created by Congress to accredit new institutions in both the private and public sectors. Few Latin American countries have such a mechanism. This is now being done in Venezuela. As of 1998, CONEAU has received 12 proposals from the private sector for accreditation, out of which 8

have been rejected. Although many private institutions in Argentina would like to attain the status as Universities, they are unable to fulfill the quality criteria. The legal framework for education in Argentina is quite different from that of Chile. Bringing equity in the public and private educational sectors is a challenge.

Senegal: *Public support for expansion of non-governmental literacy programs*

According to 1995 statistics, about 80 percent of young rural Senegalese women aged 15-39 (women in their peak years of productivity, childbearing and motherhood) were illiterate. Comparable rates for their urban counterparts and men averaged between 40 percent and 45 percent respectively. The consequences of high illiteracy among women have been analyzed. Findings indicate that children of illiterate mothers are 50 percent more likely to die in childhood; illiterate women want 1.8 more children on the same income as literate mothers; and all other things being equal (income, geographic location and ethnicity), literate mothers are about 50 percent more likely to send their daughters to school than illiterate mothers.

The Government's draft policy paper and action plan (1995-2000) for the literacy sector is based on the principle of "*faire-faire*" by literacy providers in the field (NGOs, associations, economic and women's groups, communities), and the integration of all efforts within the Government's action plan. More specifically, the role of partners is envisaged to include organizing target groups, literacy providers, donors, and other government structures involved in the sector. The Government's development strategies for the sector are to help literacy providers expand their program, coordinate the work of donors and other partners to collaborate toward achieving a common objective, and follow the same implementation strategies in order to avoid dissipation of effort.

Increasing fiscal deficit and sharp decline in foreign reserves have led to worsening of balance of payments with substantial accumulation of domestic and external arrears. With a decreasing tax base, the Government has increased its reliance on exceptional and ad-hoc revenue measures which have increased the costs of production and forced firms to close or join the informal sector. With the exception of larger providers such as Tostan, SODIFITEX, who are financed by bilateral or multilateral donors, most providers appear to be operating on small budgets with few specialist staff, and therefore offer small-scale programs, targeting narrowly defined groups in specific geographic areas. Little is known about the effectiveness of the programs which the small providers offer or to assess whether smaller providers have the professional capacity to develop and manage larger programs.

In 1995 the Ministry of Education began consultations with organizations interested in literacy with the objective of obtaining feedback on its development plan and defining modes of collaboration – the *faire-faire* strategy. The consultative process appears to have increased trust and interest on the part of providers to participate in a government program such as a female literacy program. Efforts have led to a good partnership between the Government and suppliers. In 1995 providers formed a professional association to represent them in consultations with Government and to provide technical support services for members to maintain standards while programs expand.

A Pilot Female Literacy Project amounting to a World Bank credit of US\$12.6 million was designed to support the first phase of the Government's 10-year program. The Government's program aims to reduce illiteracy rate of the age group 10-39 years old from an estimated 50 percent in 1995 to 25 percent by the year 2005, and from 66 percent to 30 percent for women. For the pilot female literacy project to succeed, and for it to give way to a full-fledged program, the issue of project management is a critical one. The Accounting and Audits department of the Government of Senegal was the only department competent to manage the program on female literacy. Few in the department, however, had in-depth knowledge of the sector. There was no assessment of the capacity in other departments to manage the program. Of a total cost of US\$14 million, about 20 percent is earmarked for the component on strengthening program delivery, management, monitoring and evaluation.

The first phase was to pilot a strategy which supports non-governmental literacy providers to expand their programs with the aim of lowering the illiteracy rate to about 40 percent overall, and to 47 percent for women. This would imply reaching 300,000 beneficiaries, 75 percent of them women. One of two other objectives is to strengthen the capacity of the private sector to deliver effective programs, and the capacity of the public sector to monitor, evaluate, and coordinate sectoral investments. The component to strengthen project management, capacity building in program delivery, management, and evaluation will also finance client consultations to strengthen partnership between Government and providers. If the pilot phase proves to be successful, one option would be to contract a firm with the capacity and experience to manage the entire program. The existing partnership between the public and private sectors is being strengthened. The Government of Senegal has acknowledged the advantages of including the private sector in literacy programs since the latter are the actual suppliers of adult literacy in the country.

Burkina Faso: Public funding to develop incentives to promote expansion of private sector schools

In the late 1980s, the then Government of Burkina Faso developed a five-year plan which officially became a National Basic Education Program. The program was designed to raise the gross enrollment ratio to 46 percent of the school-aged population by the year 2000, improve the quality of education, increase the enrollment of girls, and promote more cost-effective use of public education resources. Following several studies and technical discussions on the education system, in 1994 the government organized a national consultation on the general state of the education sector. The findings revealed that resources for education would continue to remain constrained. The consultation process resulted in a number of proposals to increase cost-effectiveness and recommended giving priority to primary education. In response, the Government developed a sub-sectoral reform program (SSRP) to improve education. Within the context of the SSRP, the Government developed a Post-primary Education Strategy (PPES). One of the priority areas of focus within PPES is to increase the participation of the private sector in secondary education to free up resources for the expansion of public primary education.

Compared to international standards, Burkina Faso has low enrollments at all levels of education. Gross primary school enrollment, which was about 5 percent in 1960 (at the time of independence) increased to 38 percent in 1995. At the secondary level, enrollments increased fourfold from 1985-95 to about 9 percent of the relevant age group. In 1995, the demand for places in public secondary schools exceeded the available number of places, especially in two urban areas (Ouagadougou and Bobo Dioulasso -- two areas where more parents can afford to pay private school fees). About 8,800 students were enrolled in technical schools (73 percent in private schools, most in the two urban areas).

The strategic choice for World Bank support was between public and private provision of services. Analysis has revealed that in order to improve efficiency and access to education, the public sector alone would not be able to support the initial planned growth (estimated at an annual rate of 13 percent), nor would it be able to meet the recurrent costs of any significant expansion in enrollment. Complete private provision raised serious questions of equity of access to education by all economic classes. The average income earning Burkinabe cannot afford to pay for private education (the GNP per capita as of 1995 was estimated to be US\$220. The average population was about 11 million according to mid-1995 statistics. Population growth is estimated at 2.8 percent per annum). The solution was to combine the provision of services: expanding private provision (through increased non-public first-grade intakes by up to 15 percent per annum) where demand is high, and concentrating public resources on lower-income and under-served groups.

A *Post-primary Education Project* amounting to a World Bank credit of US\$36.6 million was designed to support the implementation of the Government's Post-primary Education Strategy (PPES). It aims to have more and better-trained students from secondary schools at reduced costs, and with increased equality between genders and income levels. A specific focus of the project support is to provide incentives to promote expansion of private sector schools in two large cities (Ouagadougou and Bobo Dioulasso) of the country. The component on "access to lower-secondary education" supports this objective.

A specific benefit of the project would be a shift to private provision of education. Furthermore, institution building is expected to benefit enhanced partnership among government and the private sector, municipalities, NGOs, and communities. Considering the higher income capacity in the two cities, activities of the sub-component are designed to direct excess demand into private secondary schools. This would be accomplished by providing financial incentives for expansion to private schools. Financial incentives would be in the form of subsidized, long-term credit. Interest-free reimbursements would be deposited into an account with the Ministry of Secondary and Higher Education and Scientific Research (MESSRS), with reasonable grace and pay-off periods; and these funds would be used to further advance project objectives. It has been estimated that the financial rate of return to a typical private school operator, assuming a fee level in line with prevailing practice (about US\$107 equivalent per student year) would be about 17 percent. The FRR is highly sensitive to changes in fee level.

The program involves the construction of: (i) 10 private CEGs financed by the Government (to be operated and paid for on easy terms by private sector operators or self-

financed municipalities); and (ii) 160 additional classrooms in existing private schools, constructed under a “matching” scheme: for each classroom constructed and equipped with financing from the private, and according to standard Government plans, the Government will finance the construction of one more classroom. It is expected that private schools will construct 80 additional classes and the IDA administered credit will construct 80 classrooms. In order to become eligible for the Government’s matching classrooms scheme, private schools must demonstrate (with concrete results) that quality education is being imparted to students. The sub-component was designed with the participation of interested private school operators who contributed to a technical and economic feasibility study.

With regard to institutional development aspects of project support, the Ministry of Secondary and Higher Education and Scientific Research (MESSRS) and the project would support improvements in sectoral planning, financial and managerial capacities. In terms of educational planning, the project would support (in addition to other issues) ad hoc surveys and studies for the promotion of private education, to propose viable options for addressing key sectoral issues and disseminating their findings within and outside MESSRS. In terms of education projects coordination, IDA funding will assist MESSRS to coordinate the implementation of the various components which involves diverse institutions (NGOs, the private sector, and other donors) at the national and regional levels.

Mali: *Bringing the informal private training sector into the formal training sector*

The Vocational education and training (VET) sub-sector in Mali has a large private sector presence. In 1995 the VET sub-sector was characterized by a dysfunctional system. Private VET institutions offered almost exclusively tertiary sector training because it is cheaper. Serious overcrowding and deterioration in the quality of instruction were the emerging problems since VET institutions systematically overstated their capacity to enroll students. 40 percent of VET instructors were reported to be uncertified contractors, most of whom are recent graduates of *Brevet Technicien* (BT) and *Certificat d’Aptitude Professionnel* (CAP) programs, with little practical experience in the private sector. School directors did not have the leeway to administer, recruit trainers and students, mobilize resources and adapt curricula. MOE’s secondary education and training basically served as a parking place for students from anywhere between 2-4 years. Graduates were unable to find gainful employment since their skills were really not market-worthy, and they had lost a willingness to work. Graduates expected to be employed at the supervisory level without having gone through the stages of actually performing the various tasks in the production process. Employers in the informal private sector (artisanat class) emphasized that weak general education had rendered secondary level students untrainable in skills most required to increase productivity.

In 1996, the Government of Mali signed a World Bank credit for US\$13.4 million for a *Vocational Education and Training Consolidation Project*. A series of seven labor market and training surveys were commissioned. Results of the surveys confirmed that significant growth in production and employment are expected over the medium term in the areas of basic industries

(principally textiles, agro-industry and simple import substitution), construction, public works, transport, hotels and tourism, crafts, and small and medium enterprises.

One of the objectives of the project is to assist the Government of Mali to move away from the MOE supported supply driven model with the lingering remnants of the Soviet style manpower planning, toward a VET adapted to the labor market, by making it more demand driven. The approach is to increase the involvement of the private sector in the management, provision and financing of VET. Project design involved the active participation of the private sector from the start. The private sector participated in negotiations since a key shift in the policy is to include the informal private sector (the artisanat class who do not pay any taxes) progressively into the formal private sector, the group that largely pay taxes which support the VET system.

A vocational training support fund (VTSF) for skills upgrading is the mechanism designed to help improve the quality and capacity of skills upgrading. The VTSF is designed to support labor force skills and productivity enhancement among both formal and informal sector workers. The informal sector (private employers) did not have an understanding of the concept of human resources development, whereas the teachers of VET institutes do. The latter, however, do not have an understanding of the labor market needs and therefore utilize unrelated or outdated curricula to train students. Since the overall objective of the Fund is to enhance economic productivity, a system which responds to the weaknesses has been devised. Teachers of VET institutes will work as contractors with private sector employers to help the latter develop human resource plans. In exchange, the contractors will receive on-the-job training about the needs of the labor market.

Based on human resource development plans, private sector employers will apply for training funds through the VTSF to retrain, upgrade and/or reorient the skills of graduates from the public system. This would enable graduates to keep their jobs, while serving the needs of the employers. The VTSF, therefore, involves employers in financing and managing training for their workers, and is designed to expand private training capacity, develop apprenticeship training certification criteria, and provide incentives for adopting more cost-effective modes of training for critically needed skills areas. VTSF would contribute to financing of both recurrent and development costs of training activities. VTSF financing would be extended to: (a) A portion of the cost of new equipment and materials to assist with upgrading and expansion of private sector training capacity for both commercial and non-commercial enterprises; and (b) The training of private and public training center instructors on the same terms as those applied to other training beneficiaries, on the principle that public and private training institutes should be willing to invest in their human resources like any other enterprise.

Through the VTSF, a Government Vocational Training Tax would be introduced to ensure a sustainable source of employer financing long after project implementation has been completed. The percentage of VT tax would be 0.5 percent of the private and parastatal sector payroll, accompanied by a reduction of other payroll taxes so the net fiscal burden on employers and labor costs would remain unchanged. The VTSF would be administered as a non-profit agency whose financing would be exempt from taxes. The Fund would be managed by an

administrative corps comprising private and public sector employees -- 16-member Management Committee: 12 from the private sector, and 4 from the public sector. A president and first vice-president would be elected by a Managing Committee from among private sector representatives, with a second permanent vice-president elected by the Ministry of Finance and Commerce.

Indonesia: *Public support to promote public/private competitiveness in higher education*

In 1945, approximately 2,000 students were enrolled in higher education institutions. Government's strategy during the 1960s through the 1980s has been to expand access to public higher education, partly accomplished through the establishment of at least one university in each province. During the 1980s, Government's higher education policy gradually shifted to emphasize quality improvement in public universities, particularly in disciplines which required large investment costs (such as engineering and natural sciences) in which the private sector was reluctant to invest. Some measure of regional equity has been ensured, with a local source of teachers, civil servants, professionals, technical specialists, and managers. Centrally managed expansion has been in response to macro objectives of nation-building in a vast territory composed of different ethnic and linguistic groups, meeting social demand for educational services, and noting the lack of implementation capacity at local levels.

As of 1996, enrollments increased to 2.5 million students in 77 public institutions and over 1,200 private institutions. Although the public sector accounts for only 5 percent of the total number of institutions, they represent 35 percent of total enrollments, with the remaining 65 percent enrolled in private institutions and service academies. Consumer and user demand for higher education increased tremendously during the 1960-90 period, beyond the public sector's willingness and ability to cater to such demand. The result has been a phenomenal growth in private provision of higher education, 17 to over 900 institutions. And within a two-year period from 1992-94, the number of private higher education institutions increased from 1,159 to 1,200. The relative importance of the public sector as provider of higher education has decreased over time, as has public sector as employer of university graduates.

In contrast to private institutions, the public sector higher education institutions are considered to be superior in quality and performance. The 1,200 private institutions comprise a wide variety of academies, schools of religion, colleges, institutes and universities. They cater to approximately 1.5 million students. The private institutions are small and offer few programs (law, religion, the humanities, and the social sciences) only. Private institutions serve as second-best options for university students who has been unsuccessful in obtaining a place in one of the better known public institutions. Most private institutions appear to suffer from lack of facilities, materials, qualified teaching staff and resources for investment. An estimated 100 private institutions only have been assessed to be operating at a level comparable in quality to the average public institution.

Higher education in Indonesia is expensive. The total direct cost of higher education is estimated to range from US\$500 to US\$5,000 per year, whereas per capita income is only US\$880 equivalent on average. Tuition fees in public institutions ranged from US\$100 equivalent to US\$400 equivalent per year. The range is greater for private institutions -- US\$100

to US\$1,000 per year. Laboratory and other fees, off-campus living expenses, books, and transportation between home and university are additional to tuition expenses. Tuition fees are estimated to comprise only 15-20 percent of total students enrolled. Regional equity problems persist due to the fact that most children from poorer families presently do not complete secondary school. Targeting scholarships to the few who do complete secondary school has been virtually impossible due to other constraints. Cost recovery at the higher education level in Indonesia is reported to be among the highest in the world, and continues to rise. Private financing constitutes only half of total expenditures of higher education.

Despite Government's policy to allow the private sector to respond to most of the increasing demand, nevertheless, it is highly conscious that higher education provides social as well as private benefits, and that public institutions of higher education provide externalities such as research and community service which are currently not provided by private sector institutions. The public and private sectors, therefore, each has a role to play in complementing the educational efforts of one another towards the country's overall objectives. Government's role will be to set the rules of the game, direct resources to high-priority areas, encourage both public and private institutions to raise standards, and provide funds for those purposes where there is a market failure. While recognizing that both public and private institutions face different problems, Government sees that both types of institutions need incentives to raise quality. This recognition has set the norms for a New Paradigm. Under the New Paradigm, a recently established National Accreditation Board is vested with responsibility to periodically inspect and accredit programs of study and institutions of higher education both public and private, to guide users, ensure accountability, and strengthen incentives for individual universities to increase quality standards, efficiency and relevance. The Board's membership comprises recognized individuals, private sector employers, the academic community from public and private institutions and the Government.

The New Paradigm will encourage private institutions to become more efficient. Accreditation process will ensure that information pertaining to the quality of individual study programs and institutions are publicized. Consumers will be able to make their own judgments about the value of education being offered. Government has explicitly recognized that competition results in losers and winners, that in the long run some public as well as private institutions are likely to prove to be economically unjustifiable and cease to operate altogether. Government is therefore taking on a lead role in the overall legal, regulatory and financial control of universities.

In 1997 the Government with assistance from the World Bank prepared a *Higher Education Support Project (Development of Undergraduate Education)* for a World Bank loan of US\$71.2 million. The project was designed to support change from the previous supply-driven, centrally managed growth of higher education, and sector-wide approach to a more demand-driven, decentralized, and focused approach. Support was to be extended to promoting competitive principles to encourage both public and private institutions. At the Government's request the Bank has extended financial and technical assistance to assist the Government in articulating a competitive and decentralized strategy for assisting graduate research, and to develop the New Paradigm. One of the World Bank supported project components is the

Universities Development Program that comprises nearly 69 percent of total project base costs. In the aftermath of the East Asian Crisis of 1998, financing through the project has been reduced. Although project implementation is ongoing, in terms of priority the Indonesian government has placed it below basic education.

El Salvador: Public support for enrollment expansion in private and public secondary schools

In 1989, the Government of El Salvador initiated policy reforms to rehabilitate the public sector's capacity to manage and deliver social services including education. El Salvador's secondary education suffers from problems of low coverage, poor quality and inequities in access to education, management inefficiencies and inadequate levels of financing. Net enrollment for public and private schools was approximately 29 percent in 1996 (15-19 year old population) when compared to the Latin American and Caribbean countries' average of 54.8 percent, and OECD countries of 96 percent. 90 percent of public and 98 percent of private secondary education services are concentrated in urban areas, especially in San Salvador, the capital. Both public and private secondary schools charge fees. A 1996 Household Survey and beneficiary assessment showed that among those enrolled in secondary school, about 37 percent had to work, and 13 percent expressed that the cost of attending school was too much for them to be able to afford it. As of 1996, direct cost of schooling amounted to approximately US\$229 per annum in public schools, US\$446 in private non-religious schools, and US\$515 in private religious schools. Household incomes of students enrolled in secondary school was 82 percent higher than that of those not in school.

According to a Secondary Education Study conducted in 1996 by the Universidad Don Bosco, Resultados de la Prueba de Logros Academicos, low quality of schooling is a common feature of both public and private schools. This was reflected in student achievement tests for third-year secondary students (48 percent for language, and 45 percent for mathematics). There are inadequate school accreditation and quality control mechanisms of secondary education in private schools. As of 1996, public spending for education was 2 percent of GDP, a low level indicating severe under-investment in human capital. Public spending tells only part of the story. Nearly half of secondary education was being delivered by the private sector with significant community involvement. More equitable allocation of existing public resources required a better definition of the roles of public and private sectors in the delivery of educational services.

In 1997, a *Secondary Education Reform Project* amounting to a World Bank loan of US\$58 million was designed and prepared by the World Bank and the Government of El Salvador. One of the strategic choices for project support is to increase the participation of the private sector, schools and local communities, and departmental levels of government. An important input into the project's scope was the results of private rate of returns of academic and vocational streams in the country. The results of the rate of return study indicated that returns to academic education were twice as high as that for vocational education.

With regard to best strategy for support to public versus private secondary education, considering the key role of private schools in the sector, the decision is to increase coverage of

both private and public secondary schools. Studies show that participation of the private sector improves resource use, increases total resources available, and provides better linkage of human capital development to labor market needs. The project will encourage the participation of the private sector. Private schools have been targeted as a cost-effective measure for increasing the number of secondary school places available for low-income students. The mechanism adopted for the purpose is a scholarships and partnership arrangement with the Ministry of Education (MINED). In addition, quality improvements such as teacher training and curriculum programs will also be made available to private schools. The scholarship programs option was considered over student loans because of the high cost of administering student loan programs, coupled with low loan collection rates in similar programs in other countries.

One of the main objectives of the scholarship program sub-component (which amounts to US\$3.4 million) is to encourage greater participation of the private sector in secondary education. Strategic mechanisms will be adopted to motivate the private sector to participate in the program, and to monitor and evaluate the program itself. MINED will contract a private agency – the Business Foundation for Educational Development (*Fundación Salvadoreña para el Desarrollo Económico y Social* or FEPADE), an NGO involved in a previous scholarship pilot funded by the Government to administer the scholarship program. Private banks will be used to transfer funds to students. MINED's responsibilities will be to transfer on a quarterly basis, funds to FEPADE for program management. Additional funds from the private sector will complement government resources for the scholarship program. MINED will provide a list of accredited public and private schools, and students will use this list to select a school to attend. Communication campaigns will inform students about scholarship selection criteria. A commission will be established with representatives from public and private sectors to guarantee transparency in the management of the program. Project monitoring reports and examination of program accounts will ensure accountability of involved stakeholders. The private sector appears to be interested in supporting and improving the secondary education system within the stipulated rules and regulations.

A critical risk is the inability to convince all key stakeholders, including teachers and the private sector about the need and value of national accreditation and evaluation systems. The risk, however, has been estimated to be low because of ongoing dialogue with major stakeholders. Another aspect is the likelihood of limited private sector participation and lack of appropriate incentives. Again, the risk has been estimated to be low due to risk minimization measures such as public awareness campaigns and ongoing policy dialogue with the private sector and the 2021 Club. Possible controversial aspects of the project could be that despite the measures put in place to mitigate the risks, owners of private schools could find ways to circumvent the system.

The Constitution of El Salvador does not prohibit/forbid private participation in education. The project utilizes existing mechanisms to promote and strengthen private participation in secondary education. Government's cooperation in endorsing project design, and assuming responsibility for program implementation will constitute a supervisory role for the central agency. Private secondary schools will receive public funding for scholarships, but these institutions will be encouraged to contribute as well. The role of private institutions will be

oriented toward delivery of services at the secondary level. It is unclear as to how much the private sector will receive through the project for quality improvements and technical assistance.

Comoros: *Private and public joint financing of a demand-driven training program*

Communities of the Comoros demonstrate great cohesiveness. They take interest in the development process, exhibit a willingness to pay for quality services, and have demonstrated the ability to take responsibility for managing various aspects of developmental efforts. Macroeconomic imbalances since independence in 1975 had led to a decline in economic performance as a result of the country's developmental constraints – narrow export base, weak institutional capacity, poor economic management as well as an unfavorable private sector environment. In 1991, a structural adjustment program was put in place. The program contributed to improving the environment for private sector activity and made some progress in reducing the fiscal burden arising from the parastatal sector.

In 1992, with assistance from the French Cooperation and the World Bank, the Ministry of Education (MOE) developed an education information system. Initial successful steps included preparation of: (i) a census of teaching and administrative staff, and development of a database on personnel employed by the MOE; (b) a comprehensive school mapping system which includes a map for the location of each public school, a detailed inventory of facilities of both public and private schools, and surveys on the physical conditions of infrastructure, equipment and materials' enrollment statistics in both public and private schools in the country; and (c) a set of norms which form the basis for administrative decisions on staff allocation, closing and/or consideration of existing schools and provision of materials. At the secondary level, under utilization of the capacity of the existing public *colleges* and *lycées* was mainly due to restricted entrance at lower secondary level and recent expansion of private education. In 1994 the Ministry of Education (MOE) commenced rationalizing school mapping by closing five *colleges* and one *lycée*.

Deteriorating conditions in public schools have led to a preference for private schooling. A growing number of parents and local authorities, mostly in the largest villages and in dynamic communities were choosing private for-profit schooling. In 1995-96, enrollments in private schools increased, representing 10 percent at primary, 39 percent at lower secondary, and 32 percent at upper secondary levels (compared to 4, 22 and 9 percent, respectively, in 1993-94). This was the proof of increasing demand and willingness to pay for private secondary education. Although the development of private schooling was welcomed, growing concerns of equity, sustainability and quality assurance issues emerged. During the last two years, the development of private schooling appears to have led to further deterioration of public education, especially for the poor. For example, civil servants were being recruited to teach in private schools. They, however, continued to retain their public staff positions, but often neglected their obligations to public schools.

The Government of Comoros has taken steps toward finding appropriate solutions. It has considered a range of policies and measures to encourage the development of quality private

schooling, while at the same time improving equitable access to quality education and improving efficiency of public provision of education services. Positive measures of Government action include: an improved accreditation system for private schools, better control of teacher assignments and presence in public schools, and cost recovery for publicly-provided services to private schools – for example, in-service teacher training, standardized examinations. The Government is proposing to encourage participation of parents, local communities, private enterprises and the beneficiaries in the financing of education, especially at secondary and tertiary levels, in return for shared responsibility between the Government and its partner, as well as greater accountability.

The Government's long-term strategy is to accelerate growth with development by increasing productivity in agriculture, developing the small-scale and informal sectors, and expanding into new areas such as tourism, export processing, financial and other business services. In order to accelerate the process, and being aware that the present education and training system was not producing basic skills required for national development, in 1996 the Government prepared a Program for the Reinforcement of Education and Training (PRET). The program goals are to improve access to quality basic education and develop skills for the labor market.

The vocational training system in the Comoros consists of six public training institutions. Altogether the institutions have a capacity to train about 1,000 students. Private provision of training started only recently and is still in an embryonic stage. Community-supported apprenticeship schemes have been initiated and are supported by the Community Development Fund (FADC) with assistance from a World Bank-financed population and human resources development (PHRD) grant. One of the major deficiencies highlighted in the current vocational training system is the absence of the private sector in the planning, management and financing of training, and the high costs of training due to inefficient use of resources.

In 1996-97 the Government with World Bank assistance designed and prepared *the Third Education Project* amounting to a World Bank credit of US\$7 million. The project objective is to support among other priorities, improvements in training skilled labor by setting up a system of joint financing by both the private and public sectors, with the explicit goal of ensuring that at the end of the project implementation period, the private sector would be expected to finance 100 percent of a demand-driven training programs. The Government, with financial participation from communities and trainees, is expected to finance modular training programs to youth and for the informal sector, particularly in agriculture.

The project will assist in establishing a Vocational Training Fund (VTF) to extend support to public and private institutions to assist them in providing relevant market and skill-driven training to both the formal and informal sectors on a competitive basis. Similar approaches have been used effectively to promote market and employer incentives to develop and upgrade workers' skills and production technology in other countries (the Philippines, Singapore, Kenya and Madagascar). The VTF will address specific finance and quality issues pertaining to reorienting the training system to a demand-driven system. A contract training program will award up to 50 training contracts for various courses and services on a competitive

basis. An estimated total of 800 entrepreneurs and employees are expected to benefit from the program. The project will finance an initial contribution equal to US\$400,000 to the VTF. The Fund will be managed by the Director of Office of Vocational Training (OVT) under the authority of the OVT Board. Training sub-projects will be executed by public and private institutions, and they will compete for Fund resources based on pre-defined qualifications and selection criteria.

As a partial cost recovery strategy, beneficiaries are expected to pay minimal training fees, similar to the community-based apprentice scheme. Once the training scheme has been tested, flexible but competitive fee paying arrangements would be worked out between the Chamber of Commerce, voluntary associations (for, or not-for-profit) and the training institutions. Contracts would specify the financial contribution of each party (the employer, beneficiaries, the training institution, and the Fund), and reimbursement would be justified on the number of trainees trained. However, cumulative financing for any given enterprise or institution would be possible only within reasonable limits of the indicative annual allocation (to avoid a concentration of funds on one type of training or beneficiaries). Investment expenditures, mostly to acquire new equipment essential to deliver contract-based training would be financed through the VTF and/or self-generated revenues. Participation from the private sector (for, as well as not-for profit) would be encouraged.

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